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Media advice: Australian Economic Indicators

This December release of Australian Economic Indicators contains a **feature article** describing ABS efforts to measure the impact of The New Tax System (TNTS) on the September quarter 2000 CPI.

The approach taken was, as foreshadowed in the September 2000 edition of **Consumer Price Index: Australia** (cat. no. 6401.0) and **Information Paper: Price Indexes and The New Tax System** (Cat. No. 6425.0), to construct an experimental constant tax rate index which seeks to answer the question **What would have been the increase in the CPI if tax rates had not changed from those prevailing in the June quarter?** The difference between this measure and the CPI is an indication of the impact of TNTS.

Although the constant tax rate approach has significant limitations, it was the only approach that the ABS considered feasible without extensive use of modelling or assumptions. Its compilation requires only published tax rates and prices collected for the CPI.

Adhering strictly to the constant tax rate model produces a result which implies that the impact of TNTS on the CPI was 1.7 percentage points. The ABS considers this result to be implausible, due to the limitations of the constant tax rate methodology as explained in the article.

Modifications were then made to two expenditure classes where the results were considered most problematic (Beer and Spirits). The results after these modifications indicated a TNTS impact of 2.3 percentage points. The ABS still has considerable reservations about this result as described in the article.

In interpreting the results it should be noted that tax changes implemented before the September quarter are not taken into account. Further, the constant tax measure does not abstract from any changes other than in taxes, such as the significant non-tax changes in petrol prices in the September quarter. The constant tax measure is therefore not an indicator of ongoing or underlying inflation.

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Background advice for **Australian Economic Indicators** (cat. no. 1350.0) 30 November 2000

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